

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT LETTER

MINNEAPOLIS POLICE RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**MINNEAPOLIS POLICE RELIEF
ASSOCIATION
MINNEAPOLIS, MINNESOTA**

For the Year Ended December 31, 2006



Management Letter

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**MINNEAPOLIS POLICE RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA**

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**MINNEAPOLIS POLICE RELIEF ASSOCIATION
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006**

COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Components of Unit Value

Pension benefits for the Minneapolis Police Relief Association (MPRA) are based on a unit value. Minn. Stat. § 423B.01, subd. 20, and the MPRA's Bylaws define a unit as 1/80th of the current monthly salary of a first grade patrol officer.

Following is a schedule of the calculation of per unit value used at December 31, 2006:

Component	Hourly Rate	Number Of Hours	Annually	Monthly	Per Unit
Base wages	\$ 28.79	2088	\$ 60,113.52	\$ 5,009.46	\$ 62.62
Shift differential	1.11	2088	2,316.89	193.07	2.41
Clothes/equipment	-	-	787.62	65.64	.82
Longevity	3.38	2088	7,067.56	588.96	7.36
60 hours accumulated comp time	33.28	60	1,997.07	166.42	2.08
Health club dues	-	-	354.60	29.55	.37
Sick leave credit pay	33.28	96	3,195.31	266.28	3.33
Vacation credit pay	32.17	36.06	1,160.35	96.70	1.21
Performance premium (2%)	-	-	1,202.27	100.19	1.25
Holiday pay	33.28	9.09	302.55	25.21	.32
Overtime (@1.5)	49.93	144.16	7,197.65	599.80	7.50
Total			<u>\$ 85,695.39</u>	<u>\$ 7,141.28</u>	<u>\$ 89.27</u>

The sum of the hourly rate for base wages, shift differential, and longevity is the rate used to calculate the unit value for 60 hours of accumulated comp time, sick leave credit pay, holiday pay, and overtime components.

The MPRA's Bylaws identify that the components of salary be included to the extent they are payable under a collective bargaining agreement. Those salary components added after the 1995 Settlement Agreement between the MPRA and the City of Minneapolis should be included at the average amount paid to those top grade patrol officers who received the compensation item. Therefore, actual payroll practices of the

City of Minneapolis have been reviewed to determine that the salary components used by the MPRA in the unit value calculation were not inconsistent with payments to active patrol officers.

The actual payroll practice of the City of Minneapolis, for the 60 hours of accumulated comp time and 96 hours of sick leave--which are the maximum amounts allowed by contract that eligible patrol officers may elect to cash-out each year--are not paid at a rate which includes shift differential. Therefore, neither should the unit value calculation for the MPRA include shift differential in those components. The unit value is overstated by \$.18/unit or approximately \$93 per year per beneficiary at 43 units.

In the 2003 audit, we recommended the MPRA review and analyze components of unit value. The MPRA and its legal counsel have reviewed its methods and calculations of monthly salary used to calculate unit value and have concluded they are proper and reasonable. They obtained payroll data from the City of Minneapolis and formulated a methodology for annualizing and calculating overtime hours for those top grade patrol officers who retired during the year and for accumulating averages, which were then used to calculate average hours for certain components of pay, including vacation credit pay, overtime, and holiday pay. The MPRA also adjusted the rate used for vacation credit pay calculations to include base wages and longevity, but not shift differential.

We continue to recommend the unit value be corrected. The City of Minneapolis and the MPRA should agree on the methodology for determining relevant hours and averages for the components of pay to be included in the unit value calculation. The actual payroll practice of the City of Minneapolis for these and any other components of salary used by the MPRA as the basis for calculating the unit value for pension benefits should be followed to ensure consistency.

Client's Response:

The MPRA continues to believe that the unit value calculation should include the shift differential amount for the 60 hours of accumulated comp time and 96 hours of sick leave. Since the 1995 Settlement Agreement, the unit value has been calculated in the same manner. The basis for the MPRA's position is set forth in the Board's Findings of Fact, Conclusions and Determination that were adopted by the MPRA Board of Directors on November 14, 2006, that are attached hereto ("the Findings"). (See pages 6 through 9.) In 2004, the Board spent considerable time, money and effort to review each item of compensation. The Board continues to take this very seriously.

The MPRA believes that it has accurately calculated the unit value as set forth in the Findings. Based on the fact the 1995 Settlement Agreement included shift differential in the amounts attributable to the 60 hours of accumulated comp time and 96 hours of sick leave, the MPRA believes it has appropriately established the unit value by including shift differential in these components for nearly a decade. We also believe the MPRA's

basis used for calculations for accumulated comp time and sick leave are provided in the Collective Bargaining Agreement (“CBA”). The MPRA does not believe the City of Minneapolis has any lawful authority to determine the unit value. Under State law, the MPRA Board controls, governs and administers the plan, not the City of Minneapolis. The MPRA believes that it has used the actual payroll practices of the City to compute the unit value for new items of compensation added to the CBA after April 15, 1995.

The MPRA understands that it owes a fiduciary duty to the taxpayers as well as to the fund’s beneficiaries. The MPRA Board determines the monthly salary of a top grade patrol officer and the monetary value of each component pursuant to the law and the terms of the CBA and has restated the value of a “unit” based on the changing terms of the Collective Bargaining Agreement. The Board does not seek to maximize the benefits to members. Rather, it sets the amount in accordance with law.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON LEGAL COMPLIANCE

Board of Directors
Minneapolis Police Relief Association

We have audited the basic financial statements of the Minneapolis Police Relief Association as of and for the year ended December 31, 2006, and have issued our report thereon dated April 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers three categories of compliance to be tested in audits of relief associations: deposits and investments, conflicts of interest, and relief associations. Our study included all of the listed categories. In addition, we reviewed for compliance with other statutes, bylaws, and administrative rules that we deemed necessary. This review did not include all possible regulatory provisions which may be applicable and was not intended to provide assurance of full compliance with all regulatory provisions.

The results of our tests indicate that, for the items tested, the Minneapolis Police Relief Association complied with the material terms and conditions of applicable legal provisions except as described in the Schedule of Findings and Recommendations as item 03-1.

The Minneapolis Police Relief Association's written response to finding 03-1, and the Additional Client Findings, Conclusions, and Determination Relating to Unit Values have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Association's Board of Directors and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

April 6, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

**FINDINGS, CONCLUSIONS AND DETERMINATION
OF THE MINNEAPOLIS POLICE RELIEF ASSOCIATION
RELATING TO OCTOBER 15, 2005, AND OCTOBER 15, 2006, UNIT VALUES**

FINDINGS

1. The Minneapolis Police Relief Association (“MPRA”) Board of Directors is required to administer the pension fund pursuant to the laws governing the MPRA, including specifically the laws to determine pension benefits payable to recipient beneficiaries and salary contribution amounts from active members. See Minn. Stat. Chapters 317A and 423B.
2. The MPRA hereby incorporates by reference findings 1 through 28 from the Findings, Conclusions and Determination of the Minneapolis Police Relief Association Relating To October 15, 2004, dated September 30, 2004, as amended (the “2004 Findings”).
3. The City and POFM have ratified a new collective bargaining agreement for the period of October 15, 2005, to October 14, 2008 (“the CBA”).
4. The MPRA requested its attorneys, Rice, Michels & Walther, LLP, to examine the terms of the new CBA and relevant personnel data from the Minneapolis Police Department, calculate unit values based on such data, and propose adjustments to the unit value as determined by the 2004 Findings.
5. Records available to the MPRA and its attorneys indicate that: using the “rolling average” method described in the 2004 Findings, eligible top patrol officers have obtained payment for an average of 35.98 hours under the Vacation Credit Pay Plan during the year prior to October 15, 2005; and the City of Minneapolis has paid compensation for such hours at a rate that includes base wages and longevity, but not shift differential.
6. Records available to the MPRA and its attorneys indicate that: using the “rolling average” method described in the 2004 Findings, eligible top patrol officers have obtained payment for an average of 8.96 hours for holiday pay during the year prior to October 15, 2005.
7. Records available to the MPRA and its attorneys indicate that: using the “rolling average” method described in the 2004 Findings, eligible top patrol officers worked an average of 140.28 hours of overtime during the year prior to October 15, 2005.

8. Records available to the MPRA and its attorneys indicate that: using the “rolling average” method described in the 2004 Findings, eligible top patrol officers have obtained payment for an average of 36.06 hours under the Vacation Credit Pay Plan during the year prior to October 15, 2006; and the City of Minneapolis has paid compensation for such hours at a rate that includes base wages and longevity, but not shift differential.
9. Records available to the MPRA and its attorneys indicate that: using the “rolling average” method described in the 2004 Findings, eligible top patrol officers have obtained payment for an average of 9.09 hours for holiday pay during the year prior to October 15, 2006.
10. Records available to the MPRA and its attorneys indicate that: using the “rolling average” method described in the 2004 Findings, eligible top patrol officers worked an average of 144.16 hours of overtime during the year prior to October 15, 2006.
11. Based on the terms of the new CBA and the aforementioned records available to the MPRA and its attorneys, tables assigning a value for each item of compensation as of October 15, 2005 have been prepared.
12. Based on the terms of the new CBA and the aforementioned records available to the MPRA and its attorneys, tables assigning a value for each item of compensation as of October 15, 2006 have been prepared.
13. The MPRA incorporates the tables into this report.
14. The MPRA incorporates the prior determinations set forth in the 2004 Findings as to other items of compensation that are included in the calculation of unit value.
15. The Board of Directors of the MPRA has carefully exercised its fiduciary duties to its members, the City and the State.
16. The Board of Directors of the MPRA believes that the items of compensation to be included in the definition of salary are reasonable and proper. The Board also believes that the methods and calculations employed in arriving at the amounts to be included in the monthly salary are reasonable and proper, consistent with the methodology described in the 2004 Findings, fair to the members and fair to the City because they have the effect of leveling the potential for dramatic fluctuations both upward and downward in the elements of compensation that constitute “monthly salary;” particularly in light of the declining number of active top grade patrol officers.

CONCLUSIONS

1. Based on the 1995 Settlement Agreement between the MPRA, the City of Minneapolis, and Hennepin County, the MPRA has correctly included the Sick Leave Credit Pay Plan in the amount of 96 hours and the Comp Time Pay Plan in the amount of 60 hours at an hourly rate which includes shift differential, longevity, and base wages in the definition of monthly salary.
2. Based on the 1995 Settlement Agreement between the MPRA, the City of Minneapolis, and Hennepin County, the MPRA has correctly included shift differential in the amount of 2,088 hours in the definition of monthly salary.
3. Based on the new CBA and the newly obtained payroll data, the number of hours for holiday pay to be used for determining the October 15, 2005, and October 15, 2006, unit value should be adjusted as set forth in Findings 6 and 10, respectively, at a rate that includes base wage, longevity, and shift differential.
4. Based on the new CBA and the newly obtained payroll data, the number of hours for Vacation Credit Pay to be used for determining the October 15, 2005, and October 15, 2006, unit value should be adjusted as set forth in Findings 5 and 9, respectively, at a rate that includes base wage, longevity but not shift differential.
5. Based on the new CBA and the newly obtained payroll data, the number of hours for overtime worked to be used for determining the October 15, 2005, and October 15, 2006, unit value should be adjusted as set forth in Findings 7 and 11, respectively, at a rate that includes base wage, longevity, and shift differential.
6. A copy of this Resolution shall be forwarded to the President of the POFM, Office of the State Auditor, the Mayor of Minneapolis, and the City Finance Officer by certified mail.

DETERMINATION AS TO UNIT VALUE

Based on the foregoing, the MPRA Board of Directors determines:

1. The unit value for pension and benefit recipients of the MPRA shall be \$87.43 per unit as of October 15, 2005.
2. The unit value for pension and benefit recipients of the MPRA shall be \$89.27 per unit as of October 15, 2006.
3. The monthly salary upon which pension contributions by active MPRA members are based shall be \$6,994.06 per month as of October 15, 2005.
4. The monthly salary upon which pension contributions by active MPRA members are based shall be \$7,141.28 per month as of October 15, 2006.
5. The Executive Director shall adjust the benefits payable to members and beneficiaries and the contribution of active members in accordance with the above determinations. Further, the Executive Director will make the necessary calculations for back pay to all benefit recipients and any estate to which a benefit is owed for the period from October 15, 2005, to November 30, 2006. Such adjustments and back pay shall be implemented for checks to be issued on or about December 1, 2006.

Adopted on Tuesday, November 14, 2006

Lawrence J. Ward /s/
MPRA President

John R. O'Keefe /s/
MPRA Secretary